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REVIEWS.

Monopolies and Trusts. By RICHARD T. ELY. New York and London: The Macmillan Co., 1900. Pp. 273. \$1.25.

THIS work is the initial volume of "The Citizen's Library of Economics, Politics, and Sociology," of which Professor Ely is to be the editor. In the preface the author announces that the book "has not been hastily gotten together to meet a popular demand for a work on trusts," but is a part of a systematic treatise on the distribution of wealth, which has been in preparation for a number of years and is not yet completed. The book may be divided conveniently into four parts, which treat of (1) the definition of monopoly and classification of monopolies; (2) the law of monopoly price; (3) the limits of monopoly and the permanency of competition; and (4) evils and remedies.

Beginning with the definition of monopoly, Professor Ely starts with Senior's discussion of that subject, and shows that Senior considered anything to be a monopoly which "confers upon those who enjoy it a special and peculiar economic privilege." This definition implies, not an absence of competition, but the existence of circumstances "in which competition is not perfectly equal;" and the author shows that Mill's idea of monopoly is very similar to that presented by Senior. Professor Ely proceeds to show that Sidgwick defined monopoly, more correctly, as "the control exercised by an individual seller or combination of sellers over a commodity that no one else can bring to market;" but then went on to extend the meaning of the term to make it include partial monopolies and buyers' monopolies. Professor Patten's theories then claim attention. Patten considers a monopoly to be "that which gives to a productive agent the disposal of a definite portion of the surplus resulting from production;" but, since he holds that all agents of production secure such a surplus, his definition results in making "our entire industrial society composed of monopolists." Professor Ely seems to be justified in remarking that Patten's definition is a "violent departure from the ordinary usages of language," and too inclusive to serve as a satisfactory basis for discussion.

Holding, therefore, that "a more restricted idea of monopoly" is necessary, the author proposes to define it as "substantial unity of

action on the part of one or more persons engaged in some kind of business, which gives exclusive control, more particularly, although not solely, with respect to price" (p. 14). Control of price, he explains, is "the fundamental test of monopoly;" but this does not exhaust the conception, either in theory or practice, since other things, such as the power to withhold the supply, are often of great importance. This definition seems to accord with common usage and with most of the recent scientific discussions. In our judgment it is important to discriminate sharply, as Professor Ely has done, between monopoly on the one hand and surplus or differential gains on the other; for it is highly unfortunate to apply the term "monopoly earnings" to the rent of land and to business profits secured under competitive conditions. As the author puts it, we must "distinguish between the broad concept of differential gains enjoyed by those in competitive pursuits, and the monopolistic gains which are based upon the absence of competition" (p. 34). On a later page (138) Professor Ely seems to forget himself when he speaks of the possibility that the gains arising from lower fares of street railroads may "be absorbed by rent or *other* monopolies." But this is probably a mere oversight, since, on p. 137, he repeats his earlier statement that rent is not a "monopolistic gain."

Professor Ely classifies monopolies as follows (p. 43): (1) General welfare monopolies, based on patents, copyrights, etc., and including public consumption and fiscal monopolies. (2) Special privilege monopolies, based upon public or private favoritism. The bulk of the so-called trusts would be included here. (3) Natural monopolies, arising from a limited supply of raw material, from the properties inherent in the business, or from secrecy. To the first two classes above mentioned he would apply the term "social monopolies;" so that his most general classification is, first, social, and, second, natural monopolies. Obviously this classification depends for its value upon the validity of the distinction drawn between the so-called natural and social monopolies. Professor Ely has perhaps done more than any other single writer to familiarize us with this distinction, having adopted it as long ago as 1888, when he published his *Problems of Today*; and it is interesting to notice that he still upholds it. He remarks (pp. 66, 67): "Of course, there are those who claim that there is always an increment in gain resulting from combination. This is the socialist point of view, but it is not admitted by the writer. It is admitted that we have an increment in gain under the circumstances which have been

mentioned, but not under all circumstances. It is right at this point that controversy arises." Professor Ely holds that in commerce, manufactures, and agriculture, monopoly does not arise from economies of combination of capital; but a discussion of the subject is deferred to a subsequent chapter.

Next in order is an excellent chapter upon monopoly price. In this the law of highest net returns is first presented in the usual manner (pp. 99-102). But Professor Ely adds to this a secondary or derivative law which is of much importance and is formulated as follows: "The greater the intensity of customary use, the higher the general average of economic well-being, and the more readily wealth is generally expended, the higher the monopoly charge which will yield the highest net returns" (pp. 102-8). This derivative law is illustrated and applied in many interesting ways, and is a distinct contribution to the subject. The author also develops the topic, already suggested by Walras, of the lack of uniformity in monopoly prices, and shows that the intelligent monopolist will endeavor, by variations, real or apparent, in the quality of the commodity or service offered to the public, to attract different classes of customers, exacting from each the price that will yield the largest returns from that class (pp. 108-12). This chapter gives what is perhaps the best presentation we have yet had of the subject of monopoly price. One criticism, however, may be made concerning the method of presentation. The author does not emphasize sufficiently the point that fixed expenses of all kinds are disregarded in determining what price will yield the highest net returns. This fact is brought out incidentally in a footnote (p. 116); but it should have been accorded an important place in the main text, for, as it is, the general reader is likely to infer that all expenses are factors in determining monopoly price.

In the chapter upon the limits of competition Professor Ely defends his distinction between natural and social monopolies, and faces squarely the question whether competition is self-annihilating (p. 141). In a footnote he remarks (pp. 167, 168): "It is strange that some conservative economists apparently fail to see that what they concede to the advocates of the superiority of monopolized businesses implies an abandonment of the fundamental position of economics concerning the advantages of competition, and is a virtual surrender to the theory of socialism." The author insists that the admission that competition is self-annihilating should lead to socialism (p. 142), and publishes a long and very able letter from a friend who argues as strongly as it can

be argued that "in every modern industry" there is "an innate tendency to consolidation."

In answer to this question Professor Ely admits that in the field of natural monopolies competition is impossible, but contends that elsewhere the case is different. He believes, and rightly, that production on a large scale, or concentration, is a different thing from monopoly (pp. 143, 144). A first reason for this belief is that, outside the field of natural monopolies, the point of "maximum efficiency of plant" is reached sooner or later, and that "new fixed charges emerge as business grows" beyond this point. While the wastes of competition may sometimes be avoided, its advantages are lost also; and business becomes "listless, content to follow in the old ways, indifferent to small economies." In the second place, an examination of the published lists of trusts shows that many of these combinations do not enjoy a monopoly and that others are natural monopolies (pp. 168-74). Thirdly, many of the monopolies that now exist in the manufacturing industry owe their power to favors received from natural monopolies and to other illegitimate advantages, so that it cannot be said that they are due exclusively to economies arising from monopolized production (pp. 170-76). These facts weaken the argument from the alleged tendency to monopoly in all fields of industry. Finally, the author argues that the "causes of competition are found in human nature and in the laws of the external physical universe," so that we may believe competition to be a permanent economic force (pp. 178, 179). Therefore he concludes: "So far as we now see, we have a large field belonging to monopoly; but outside of this field we have another in which, under right conditions, competition is a permanent social force. Furthermore, we place the burden of proof upon those who claim that competition in industry is self-annihilating and invariably makes way for monopoly."

The next chapter, on the concentration of production, reviews the available facts, and recognizes an unmistakable tendency toward production on a large scale (pp. 180-89). But the author presents also a considerable body of facts that show that all the advantage is not universally upon the side of giant enterprises (pp. 190-94, 197-201). In this connection he refutes the arguments of Mr. Wells concerning the tendency to concentration in agriculture. He also shows that stock speculation has been an important factor in producing the industrial combinations of recent years (pp. 214-16). In so far as concentration takes place "without any special favors," Professor Ely considers it a

positive benefit to society, and says (p. 196): "Large-scale production adds to human comfort and well-being through increased production of material wealth. Large-scale production increases the margin between the human race and bare subsistence, or even starvation." The real significance of the trust movement, apart from natural monopolies and special favors secured from these sources, is "nothing else than this general tendency toward increased size of the business unit" (p. 212).

The concluding chapter treats of evils and remedies. In so far as concentration has been attended with monopoly, Professor Ely disapproves of the movement. Monopoly usually, though not necessarily, makes for higher prices; and the existence of a class of favored persons is an important factor in the struggle for survival (pp. 217-25). It also may result in deterioration of the quality of the service or commodity, when the stimulus of competition is removed (p. 226). Moreover, monopolies are likely to exert a grievous pressure upon producers of raw materials (pp. 226-8). In any event, monopoly means despotism, and is likely to occasion the insolence and oppression to which despotic control is always prone. Human nature has not changed radically, and future experience is not likely to differ from the experience of the past (pp. 229-31). Finally, monopoly exercises an undesirable influence upon the distribution of wealth, and produces a concentration of wealth which is a dangerous thing in a republic like ours (pp. 238-40).

Touching upon remedies, the author shows the futility of direct prohibition, the method which we have been inclined to follow in the past, and favors more indirect methods (pp. 240-45). He does not favor a refusal to incorporate large enterprises, but does desire a reform of corporation laws (pp. 245-8, 267-72). The reform of unequal taxation is good, so far as it goes (p. 249). Potential competition can be relied upon only when monopoly is not based upon favoritism of any kind (pp. 252, 253). Education, both general and special, can do something to equalize opportunities (pp. 255, 256). A reform of the tariff and of our patent laws, and the suitable regulation of inheritance and bequest, can do much (pp. 264-7). Even more can be accomplished by a proper control of natural monopolies, which would abolish the special privileges and favors that many industrial combinations now enjoy (pp. 256-64). Here the author favors, upon the whole, the policy of public ownership; and emphasizes the fact that his views upon this subject must now be regarded as conservative, since a change

in public sentiment inclines many who formerly opposed such a policy to favor even more radical methods than he is prepared to advocate.

The reviewer has already expressed his belief that *Monopolies and Trusts* is a highly valuable contribution to an important subject, and he believes that the general verdict will be that the book is the best piece of work that Professor Ely has yet done. In any case, all readers will be impressed by the perfect candor and scientific reserve which characterize the book. We need, not intemperate and wholesale denunciation, but impartial and searching discussion; and this is what the author has given us. Finally, the book should lead the advocates of industrial consolidation to weigh carefully the distinction between consolidation and monopoly, and to see the logical outcome of the admission that monopolized production is superior to competition in all important parts of the industrial field.

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Rural Wealth and Welfare, Economic Principles Illustrated and Applied in Farm Life. By GEORGE T. FAIRCHILD, LL.D.
New York: The Macmillan Co., 1900.

MANY works on economics are written by persons who have chiefly before their minds the phenomena of urban life, manufactures, and commerce. Naturally such discussions borrow their illustrations from fields not familiar to farmers. The author of the elementary book here under notice was for three decades a teacher in the agricultural colleges of Michigan and Kansas, and his memory is full of those pictures of social relations familiar to farmers. These facts account for certain important advantages of the treatise.

The three parts of the book deal with productive industry, distribution of wealth, and consumption. Exchange is considered under production. Perhaps the most important and original portions of the volume are those in which free use is made of illustrative charts which present in a very clear and interesting form statistics of farm stock and crops, the yields of grain, the fluctuations in prices of agricultural products, manufactured goods, and silver in recent times.

The author's definition of "welfare" includes health, wealth, wisdom, and virtue, and he believes that economic science should deal with only one of these factors, wealth; the other elements being treated in public hygiene, the science of education, and the science of